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The Conference Board

Worldbusiness Perspectives No. 67
June 1982

FOREIGN CAPITAL EXPENDITURES BY U.S. COMPANIES
Confirmation of 1982 Slowdown

The earlier signs of a slowdown in expenditures on plant and equipment in foreign countries by U.S. manufacturers are well supported by the April survey of The Conference Board. Nearly 29 percent of the responding companies intend to spend less in 1982 than they did in 1981. This percentage was nearly double that of the responses to the prior survey (October, 1981) in which companies were asked the same question.

A sharp drop in those planning to spend at the same level accompanied the jump in the percent of companies planning to spend less. Only about one-third planned to carry over to 1982 the level that they set in 1981.

Those planning to spend more also dropped, but, at 40 percent of the total, they still represent the plurality position. Clearly, there is now a gloomier outlook with regard to business prospects in foreign countries than there was just six months ago.

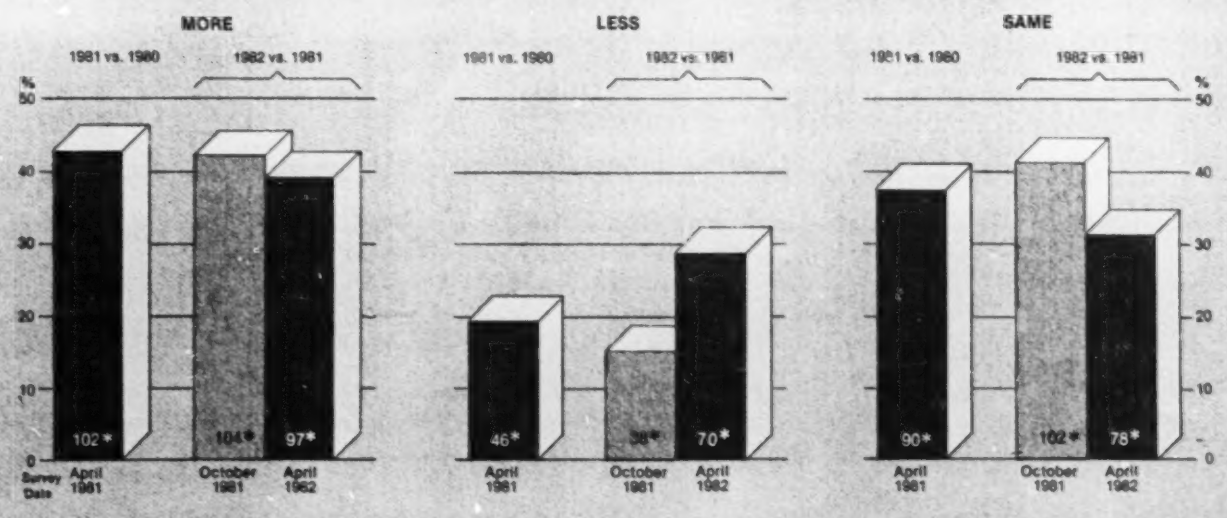
The survey conducted by The Conference Board is aimed only at comparing current investment intentions with past levels on a company-by-company basis, without seeking actual dollar magnitudes. Consequently, it is impossible to translate the responses into dollars.

The survey conducted by the United States Department of Commerce in December, 1981, aimed at developing estimates of money expenditures, showed an expected total in 1982 above the 1981 level. The Department's current estimates, however, represent a pullback from levels developed from their June, 1981, survey.

The Conference Board survey appears to point to a continuation of the worsening outlook for plant and equipment expenditures in foreign countries exhibited as far back as a year ago. It appears unlikely, however, that expectations have so deteriorated in the early part of 1982 as to result in outlays below 1981 levels.

J. Frank Gaston

Manufacturers' Plans for Plant and Equipment Expenditures Outside the United States
Number and Percent of Companies Planning to Spend:



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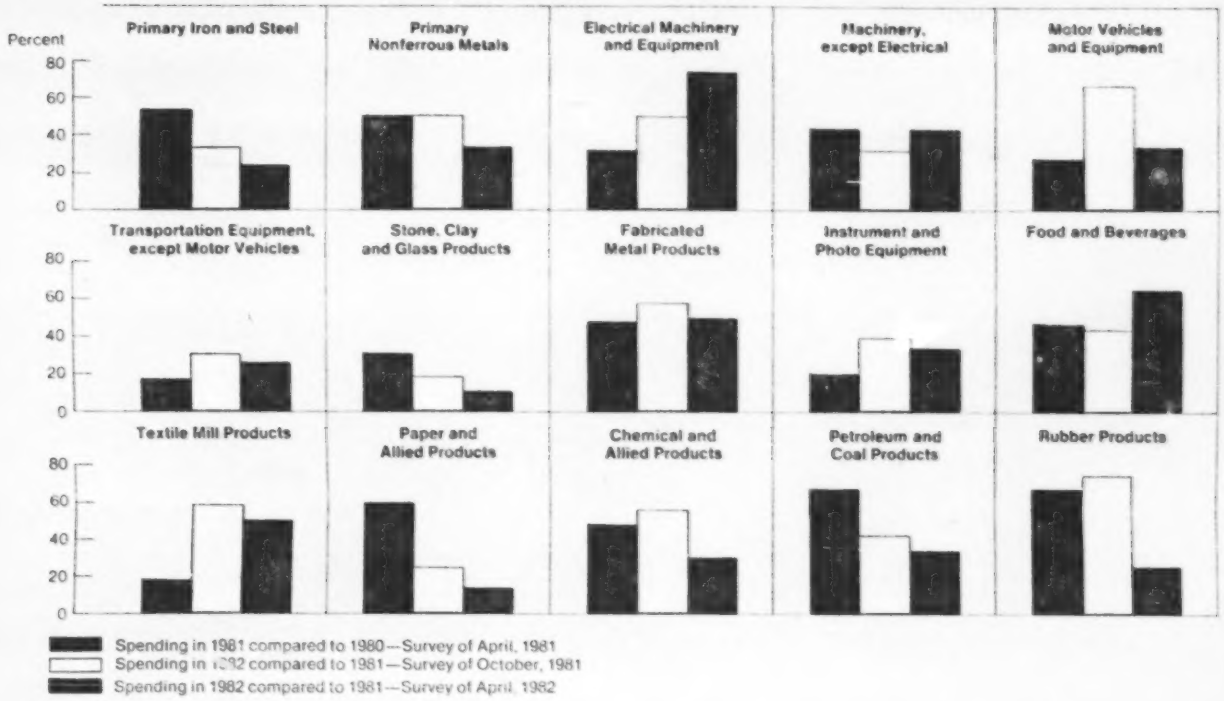
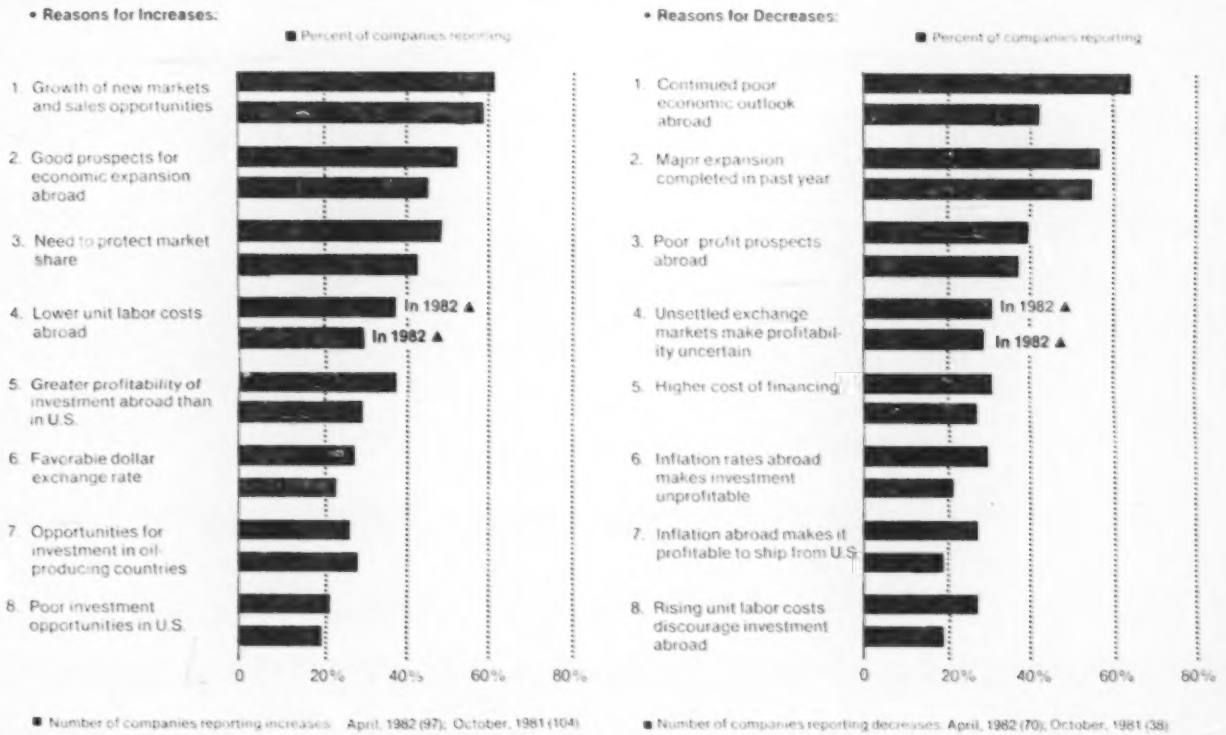
Spending Plans for Plant and Equipment Outside the United States by Industry

Percent of Companies Planning to Spend More



Reasons for Plant and Equipment Expenditures Outside the United States—All Manufacturing


• Reasons for Increases:
■ Percent of companies reporting
1. Growth of new markets and sales opportunities
2. Good prospects for economic expansion abroad
3. Need to protect market share
4. Lower unit labor costs abroad
5. Greater profitability of investment abroad than in U.S.
6. Favorable dollar exchange rate
7. Opportunities for investment in oil-producing countries
8. Poor investment opportunities in U.S.
In 1982 ▲
In 1982 ▲
0
20%
40%
60%
80%
■ Number of companies reporting increases: April, 1982 (97); October, 1981 (104)
▲ Based on October 1981 survey
▲ Based on April, 1982 survey
• Reasons for Decreases:
■ Percent of companies reporting
1. Continued poor economic outlook abroad
2. Major expansion completed in past year
3. Poor profit prospects abroad
4. Unsettled exchange markets make profitability uncertain
5. Higher cost of financing
6. Inflation rates abroad makes investment unprofitable
7. Inflation abroad makes it profitable to ship from U.S.
8. Rising unit labor costs discourage investment abroad
In 1982 ▲
In 1982 ▲
0
20%
40%
60%
80%
■ Number of companies reporting decreases: April, 1982 (70); October, 1981 (38)

J. Frank Gaston, Editor
A bimonthly report from

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The Conference Board

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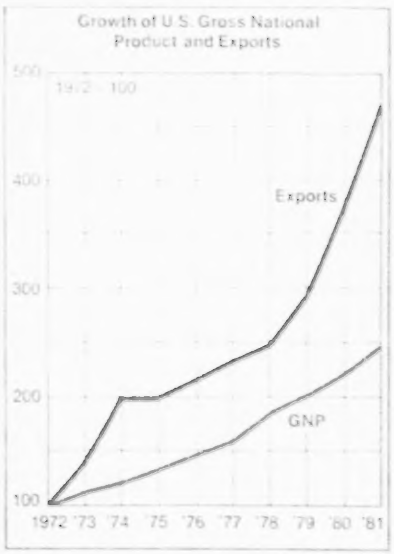
August 1982

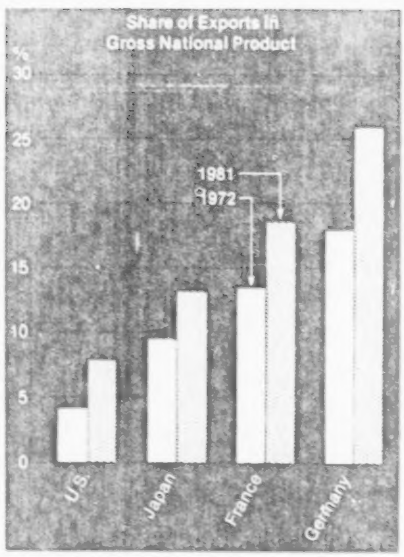
U.S. EXPORTS, MULTINATIONALS AND MANUFACTURING ACTIVITY
Some Recent Findings

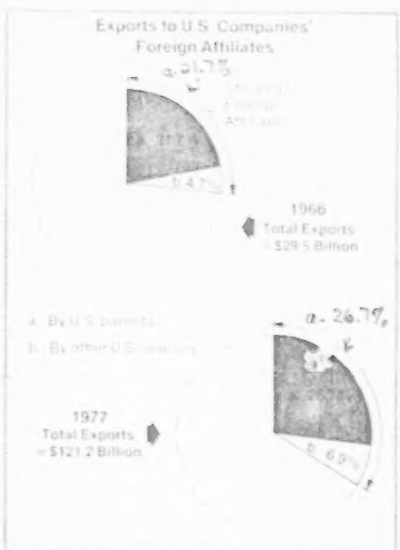
During the 1970's, international trade was the fastest growing sector of the United States economy. Merchandise exports grew considerably faster than total economic activity, whether computed in current or constant (that is, inflation-adjusted) dollars. As a result, the share of merchandise exports in gross national product (GNP) rose from around 4 percent in the early 1970's to nearly 8 percent in the past two years. Although these shares involve large absolute amounts—the United States, the world's largest trader, last year exported $234 billions worth of goods—they are considerably below those of other major industrial countries that are much more dependent on international trade.

As the dollar kept strengthening in the foreign-exchange markets during 1981 and 1982—in early July it reached a 12-year high against 15 major currencies—United States exports continued to make news. Thus, late last month the Commerce Department reported that in 1981 the U.S. share of world exports of manufactured goods climbed to 20.7 percent, the highest level in more than a decade and more than 2.5 percentage points above the 1980 level (see table on page 2). However, the Department was quick to add, that increase did not represent a shift in the U.S. competitive position. Rather, the 1981 jump in the U.S. share reflected the sharp appreciation of the dollar which, in turn, lowered the dollar value of other countries' exports.

Perspective on U.S. Exports







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U.S. Share of World Manufactures Exports

	U.S. exports of manufactures ($ bill.)	*U.S. share of world total[1] (Percent)*
1975	$ 71.2	19.1%
1976	77.2	18.8
1977	80.2	17.3
1978	94.5	17.0
1979	116.7	17.4
1980	144.0	18.3
1981	154.3	20.7

[1]Manufactures exports of 15 major countries, excluding shipments to the United States

At the same time, the rise in the value of the dollar has cut into foreign demand for U.S. exports, although generally depressed levels of economic activity abroad likewise have contributed to lower demand for U.S. products. In addition, the U.S. export performance has been affected adversely by record-high financing costs and a cutback in official support of export-financing facilities. Not only have major sectors of industry lost foreign sales as a result of the dollar's strength, but a relatively weaker export performance last year affected the economy as a whole. According to a private estimate, as much as 80 percent of the drop in U.S. economic activity in late 1981 was due to the weakening in exports. The Federal Reserve similarly believes that last year's drop in exports (in volume terms) reduced real economic growth in 1981 by one-half to three-quarters of a percentage point.

U.S. Exports and Multinationals

It has often been asserted that part of the longer term growth of U.S. exports can be attributed to the overseas expansion of U.S. multinational companies. Some ten years ago, when proposed legislation (the Burke-Hartke bill) would have imposed sweeping regulation on U.S. multinationals, including controls over their foreign investments, many major U.S. companies prepared material and testified on how their overseas activities had, in fact, boosted domestic employment. These activities, a major drug company stated, had "opened up great new markets for products which the company manufactures in the U.S. and exports aborad."

A Commerce Department census released last year, *U.S. Direct Investment Abroad, 1977*, gives detailed data on U.S. multinationals' exports, by major countries and industries. The census covers 3,540 U.S. parent companies with a total of 24,666 foreign affiliates. For the 3,425 "nonbank" parents, exports to their 23,641 foreign affiliates accounted for 27 percent of total U.S. exports in 1977; another 7 percent of U.S. exports was shipped to those affiliates by other suppliers. In 1966, when the previous such survey had been made, shipments by reporting U.S. companies to their affiliates had taken up less than 22 percent of U.S. exports, and shipments from other U.S. sources another 5 percent. There are, of course, vast differences by geographic areas, with such trade with Canada showing vastly higher shares. Thus, U.S. exports to the Canadian affiliates of U.S. companies accounted for 50.4 percent of all U.S. exports to Canada in 1966 and for 60.5 percent in 1977.

While more recent information is not available, it is reasonable to assume that the share of U.S. exports going to foreign affiliates has been maintained, if not increased. For one thing, U.S. plant and equipment expenditures abroad appear to have grown at a higher rate than similar outlays in the United States. As this publication reported last December: "There is clearly no withdrawal from investment abroad." Even the most recent data, reported in the June issue of *Worldbusiness Perspectives*, make it seem unlikely that 1982 outlays abroad will fall below 1981 levels.

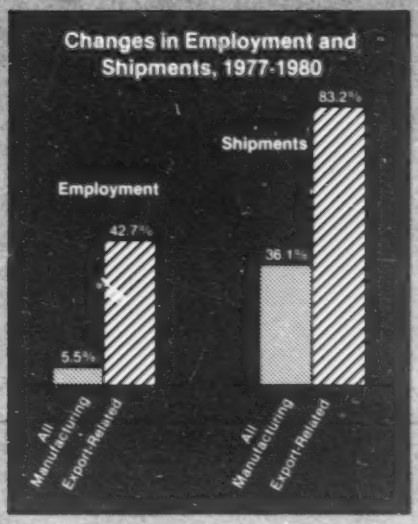
Concentration of Exports

More detailed analysis of the data in the Commerce Department survey has revealed that, in general, large U.S. parent companies tend to have relatively large foreign operations, as measured by their foreign affiliates' combined assets. Thus, of the 281 nonbank U.S. parents with assets of $1 billion or over, 79 had foreign operations with combined assets of $100 million or more. On the other hand, of the 1,955 U.S. parents with assets of less than $50 million each, 95 percent had foreign operations with combined assets of less than $25 million.

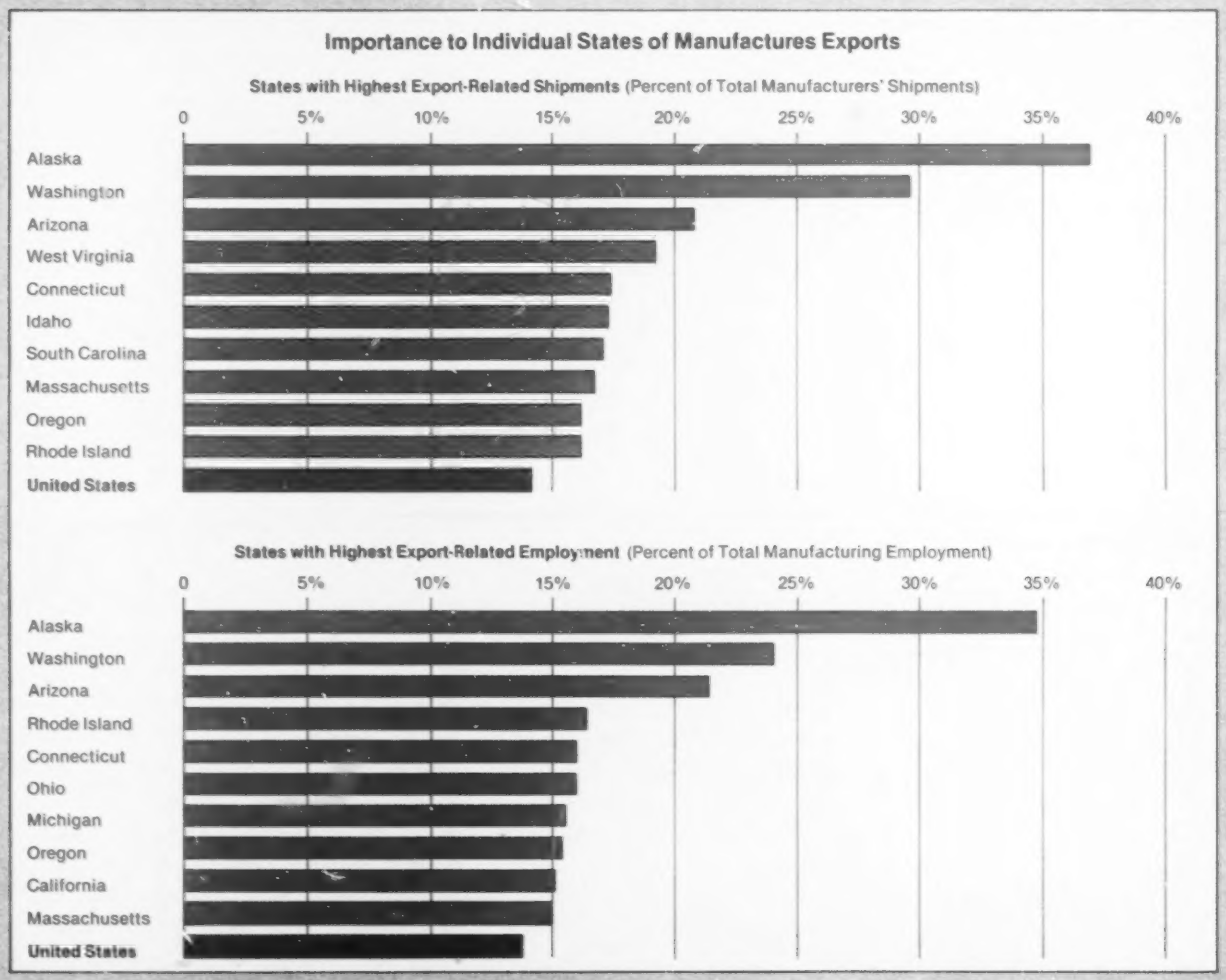
These facts alone make it plausible that the larger parents would be more prominent exporters than the smaller ones. Indeed, it has long been known that U.S. exports are highly concentrated in terms of companies—that is, a large percentage originates with a relatively small number of large firms. As long ago as 1976, the Commerce Department reported that 87 percent of U.S. manufactures exports came from firms with 1,000 or more employees, and in 1977 a Commerce official remarked that only 25,000 of the approximately 300,000 U.S. manufacturing companies were engaged in exporting.

A more recent compilation comes from *Fortune* magazine, which since 1980 has published an annual listing of the 50 leading U.S. exporters. The just-released tabulation for 1981 shows that the ten largest exporters—all of which were among the first 50 on *Fortune's* list of the 500 largest U.S. industrials—among them accounted for $35.2 billion, or 15 percent

U.S. Manufacturing Sector and Exports, 1980



Export-Related Shipments as Percent of Total Manufacturers' Shipments, Selected Industries
Miscellaneous Manufacturing (SIC 39)
Nonelectric Machinery (SIC 38)
Primary Metals (SIC 33)
Chemicals and Allied Products (SIC 28)
Tobacco Products (SIC 21)
All Industries



Export-Supporting Activities in the Nonmanufacturing Sector

In addition to including employment in manufacturing establishments that supply materials and parts for the production of manufactured exports, the indirect estimates in this report include employees in nonmanufacturing, such as farms and mines that provide materials inputs to manufacturing, plus various types of services required to nonmanufacturing industries in producing the manufactured goods to be exported, such as electricity, repair services, business services, transportation, utilities, etc.

Also taken into account...are employees associated with inputs to the business supplying these goods and services to the final manufactures of the exported goods, and so on. Thus, the indirect estimates include the employment associated with steel and electricity entering the production of an automobile for export, the coal used by the steel mill and electric utility, the transportation of the coal, the fuel and repair shops, etc. The data also include estimates of employment associated with transporting the manufactured goods from "plant to port" and the employment of exporting establishments that purchase and resell the goods to foreigners or arrange their sale abroad. It should be emphasized again that the employment estimates relate only to the export of manufactured goods and exclude employment related to the export of other goods and services. They do not, therefore, measure the full employment effect of all U.S. exports.

U.S. Department of Commerce, *Origin of Exports of Manufactured Products*, January 1982.

of total 1981 exports. The next ten exporters racked up another $10.6 billion, or 4.5 percent, of all exports. Thus, the first 20 exporters accounted for almost one-fifth of total U.S. shipments abroad. The 50 companies combined accounted for $63 billion, or almost 27 percent, of the 1981 total.

Exports and Manufacturing Output and Employment

Another piece of evidence concerning the tie between U.S. industry and exports comes from the Commerce Department's *Annual Survey of Manufactures* for 1980. A separate report drawn from the survey, *Origin of Exports of Manufactured Products*, traces, by major industries and by states, the contribution made by exports to both manufacturing activity (shipments) and employment. According to the report, in 1980 there were 4.8 million jobs in the United States *related* to the export of manufactured goods. These represented 5 percent of total civilian employment and 6 percent of employment in the private sector.

Of the 4.8 million jobs, 2.8 million were in manufacturing plants per se, and another 1.9 million in nonmanufacturing establishments supplying other materials and services to the ultimate manufacturers. The 2.8 million, in turn, included 1.5 million jobs producing manufactured goods for direct export and 1.3 million jobs in other manufacturing plants that contributed parts and components.

The 1.9 million workers in nonmanufacturing activities that support manufactures exports included jobs in trade, business, transportation, communication, utilities, agriculture, mining and other industries (see box). Wholesale and retail trade accounted for more than three-quarters of a million jobs in support of manufactures exports, and business services for another one-third of a million.

For the manufacturing sector and its supporting industries combined, the report found that exports accounted for 14.1 percent of total shipments and 14.7 percent of total employment. Of the 20 major industry groups classified in manufacturing, nonelectric machinery recorded the largest number of export-related jobs (526,200), with electric and electronic equipment ranking second (343,300). The industry group with the largest percentage of employment associated with exports was tobacco products (27.2 percent).

On a geographic basis, the Commerce Department estimates showed the largest number of export-related jobs to be in California (518,000), with New York ranking second (388,100). As a share to total civilian employment, Rhode Island and Connecticut (with 7.5 and 7.2 percent, respectively) had the highest number of jobs related to manufactures exports.

While some individual states show a relatively high proportion of both manufacturing shipments and manufacturing employment that are export-related, the actual manufacturing base in those states may, of course, be relatively small. Thus, in two of the highest ranking states on both scores, Alaska and Arizona, total manufacturers' shipments (domestic and exports) amounted to $1.8 billion and $11.1 billion, respectively, or merely 0.1 and 0.6 percent of the U.S. total.

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